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Progress on the replacement of office blocks A–J at the United Nations Office at Nairobi

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General on the progress on the replacement of office blocks A–J at the United Nations Office at Nairobi (A/73/344), submitted pursuant to General Assembly resolution 72/262 A. During its consideration of the report, the Advisory Committee met representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses received on 27 September 2018.

2. In his report, the Secretary-General provides information on the steps taken after the General Assembly, in its resolution 72/262 A, approved the initiation of the project to replace blocks A–J at the United Nations Office at Nairobi, as proposed in his previous report (A/72/375). He also provides an update on the progress made, and information on the refinement of the project proposal, as requested by the Assembly (resolution 72/262 A, sect. XIV, para. 10), indicating that the new project proposal would entail the following three project activity streams: the repurposing of the publishing services building, including the construction of an annex; a "right-sized" building development, replacing blocks A–J; and the implementation of flexible workspace strategies in all remaining blocks at the Gigiri complex (see paras. 4–12 below). The Secretary-General indicates that this approach would ensure that the future space needs of the Office and all other United Nations tenants would be met, and in the light of the increasing number of requests received by the Office, would potentially allow additional specialized agencies, funds and programmes to join the secure complex.

3. Background information on the evolution of the complex is provided in paragraphs 1–3 of the report and in the previous report. **The Advisory Committee expresses its gratitude to the host country for its continued support for the**

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United Nations Office at Nairobi and trusts that the Secretary-General will continue to engage with the host country to ensure the success of the project.

II. Refined project proposal

Repurposing the publishing services building and replacing existing blocks A–J

4. In terms of refining the project proposal, the Secretary-General proposes repurposing the existing publishing services building and constructing an adjacent annex with the purpose of providing new office space, within an earlier time frame than previously anticipated, that may also be used as swing space to support the conversion to a flexible working layout of all existing office space (A/73/344, paras. 19–20). The idea of repurposing the building results mainly from demand changes in the printing industry, where the smaller footprint of a digitally upgraded publishing facility would release more than half the building for conversion to other uses. The addition of an annex to and the construction of a mezzanine in the repurposed building would provide for up to 5,000 m^2 of space. The Secretary-General suggests that this refined approach could be considered a viable alternative to the construction of a new service building that was proposed in his previous report (paras. 52 and 54).

5. The Secretary-General indicates that blocks A–J were constructed in the late 1970s as semi-permanent buildings and do not comply with the prevailing codes in terms of industrial health and safety, seismic aspects, hazardous materials, accessibility, energy efficiency/sustainability and space utilization (para. 5). He also indicates that the replacement of the blocks was one of the near-term major construction projects identified in his reports on the strategic capital review (A/72/393, A/70/697 and A/69/760). Moreover, he indicates that, in that review, it was determined that further investment in major maintenance of the buildings would in time cost more than their full replacement, given that they had gone beyond their useful life (A/73/344, para. 6; see also A/70/697).

6. The Secretary-General states that, of the previously presented options (see A/72/375), the second, at a cost of $69.88 million, was considered the most viable for replacing the blocks with the most benefits. The current refined proposal provides for the replacement of the blocks, all temporary prefabricated office structures and temporary office premises and other facilities. The refined project cost would be in the amount of $66.26 million, reflecting a reduction of 5.2 per cent, or $3.62 million, compared with the original estimated cost (see A/73/344, para. 21). A detailed breakdown of the total estimated costs from 2018 to 2024 is provided in annex I to the report of the Secretary-General.

7. With regard to the cost plans associated with the project, the Advisory Committee was provided, upon request, with a detailed comparison between those in the previous report of the Secretary-General and those in the current report. The table below confirms that, overall, a saving of 5.2 per cent is expected to be achieved.

Comparison of cost plans

(Thousands of United States dollars)

	A/72/375	*A/73/344*	*Difference*	
	(a)	*(b)*	*(b)-(a)*	*Reasons for the difference*
1. Construction costs				
1.1 Early works/repurposed publishing building	–	10 531.3	10 531.3	Refined proposal utilizing existing building
1.2 Flexible workspace	10 550.0	11 288.4	738.4	Cost rebaselined to 2018 (i.e. includes 7 per cent escalation compared with 2017 estimate)
1.3 New office building	25 143.0	18 080.3	(7 062.7)	Elimination of new service building, but revised cost rebaselined to 2018 (i.e. includes 7 per cent escalation)
1.4 Swing space (preparation, furnishing, configuration)	3 840.0	–	(3 840.0)	No temporary swing space required in refined proposal
Subtotal, construction costs	**39 533.0**	**39 900.0**	**367.0**	
2. Professional services				
2.1 Early works/repurposed publishing building design works	–	1 263.8	1 263.8	Refined proposal utilizing existing building, 12 per cent of construction owing to specialist design expertise (information technology and security)
2.2 Flexible workspace design works	1 055.0	1 354.6	299.6	Rebaselined to 2018 costs, increased from 10 to 12 per cent of construction owing to complex repurposing and specialist information technology design (flexible workspace)
2.3 New office building design works	2 514.0	1 808.0	(706.0)	Elimination of new service building
2.4 Risk management	–	102.9	102.9	Independent risk management began in 2018 and costs apportioned across full duration of project
2.5 Other services (furniture, information technology, licences and third-party review)	–	61.0	61.0	Other services and costs began in 2018, includes third-party reviews for 2019–2020
Subtotal, professional services	**3 569.0**	**4 590.3**	**1 021.3**	
3. Escalation	16 780.0	9 655.8	(7 124.2)	Reduced through accelerated schedule of 1.1-1.3 and escalation on 1.1-1.3 only (not on swing space or professional services)
4. Contingency	3 569.0	5 387.9	1 818.9	Contingency remains at 10 per cent, but increased to cover not only construction costs but also professional services and escalation

	A/72/375	A/73/344	Difference	
	(a)	(b)	(b)-(a)	Reasons for the difference
5. Project management				
5.1 Dedicated project management and support team	6 428.0	5 361.0	(1 067.0)	Reduced new Professional and National Professional Officer recruitments to half-year funding for 2019 to take account of recruitment lead times
5.2 Dedicated coordinator at Headquarters	–	404.0	404.0	Addition of Office of Central Support Services role at 75 per cent funded, and only half-year funded for 2019
5.3 Travel of project management team	–	87.8	87.8	Travel in 2018 related to risk workshop and Office of Central Support Services guidance on report preparation; travel budget included across duration of project
Subtotal, project management	**6 428.0**	**5 852.8**	**(575.2)**	
6. Security requirements	–	873.3	873.3	Security patrols during construction, assuming four United Nations staff security officers full time, but for 12-hour shifts per day over 24/7 period
Total	**69 880.0**	**66 260.1**	**(3 619.9)**	

8. As regards construction costs, the Advisory Committee notes that, while the costs of utilizing the existing publishing services building amount to $10,531,300, those relating to the new office building have decreased by $7,062,700 and those relating to the preparation, furnishing and configuration of swing space ($3.84 million) are no longer applicable given that temporary swing space is no longer required.

9. **The Advisory Committee is of the view that, when two revised and substantially different cost plans are proposed by the Secretary-General following the refinement of a construction project and a revision of the original cost plan as requested by the General Assembly, it would be good practice for the Secretary-General to provide the comparative information and explanations relating to both the original cost plan and the revised cost plan in his report. The Committee recommends that such comparative information be provided for all future construction projects, as required (see A/73/425, para. 20).**

10. The Secretary-General indicates that the key objectives of the refined proposal are to address the life-safety deficiencies highlighted in the report. As a result, the current proposal is to build two office blocks based on the current needs and functions of the Office with the possibility, given the modular design nature of the proposal, of modifying the number of blocks in the future to accommodate increased or decreased identified needs. In this regard, the project proposal is scalable and flexible, allowing the Office to incorporate the possible impacts resulting from ongoing business transformation initiatives. The Secretary-General also indicates that the proposal does not, at this stage, take into account or attempt to predetermine the outcome of the work on the global service delivery model (paras. 12–14).

11. The Secretary-General elaborates that the space utilization study detailed in his previous report indicated an average desk utilization of 44 per cent and the potential

for increased occupancy density, thereby allowing for a fully flexible workplace environment. He stipulates, however, that, even if that environment were introduced, a new office building would still be required to cover a deficit capacity of between 500 and 900 workstations, given that the estimated future requirements of some 4,000 workstations exceed the current capacity (paras. 15–18). He indicates that the new office space to be established within the repurposed publishing services building and the new office buildings would be constructed by incorporating flexible workspace strategies that would consolidate the current footprint of the Secretariat tenants and allow extra office space to be made available to other United Nations tenants (para. 10).

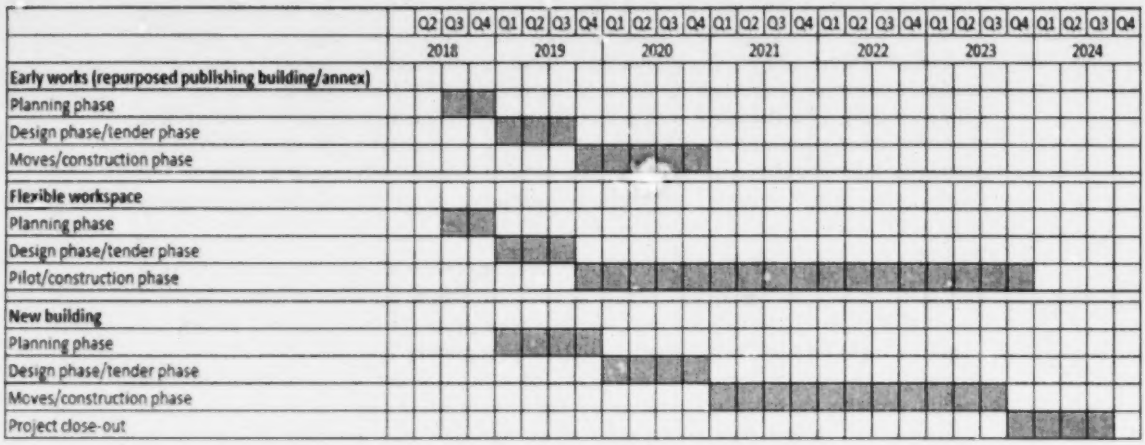
12. The Secretary-General indicates that this approach allows for an accelerated construction schedule that will result in reduced overall escalation costs, poses a lower risk to the Organization than the previous proposal and provides additional benefits, including increased space utilization (summary and paras. 54–55). Upon request, the Advisory Committee was provided with a register of lessons learned from capital projects recently undertaken by the Organization (see A/69/760) and was informed that, in line with paragraph 6 of section XIV of resolution 72/262 A, the Global Property Management Service of the Facilities and Commercial Services Division of the Office of Central Support Services was serving as the focal point for maintaining and updating the register and ensuring that lessons learned were taken into consideration by all offices undertaking capital projects, including the project for the replacement of blocks A–J.

13. **The Advisory Committee welcomes the refined project proposal in terms of scope, implementation strategy and future activities to be undertaken with regard to the project. The Committee also welcomes the repurposing of the publishing services building, the replacement of office blocks A–J and the application of flexible workplace strategies to the office blocks of the complex, which will result in cost savings from optimizing the use of available space. The Committee commends the United Nations Office at Nairobi for providing transparent information regarding the related cost savings of 5.2 per cent of the overall budget.**

Project schedule

14. Figure IV in the report of the Secretary-General, reproduced below, provides the project schedule of the planning, design and construction phases of the overall project phases of the three main areas of work, namely: repurposing the publishing services building, which includes the construction of an annex; a "right-sized" building development that replaces blocks A–J; and the implementation of flexible workspace strategies at all remaining office blocks located on the complex. The schedule includes: the planning and design phases of each project part; proposed early works on the repurposed publishing services building being carried out during 2019, with a phased construction approach lasting until 2020; the gradual conversion of 56 floors of existing office space to flexible workspace beginning with the pilot project in the fourth quarter of 2019, with completion by the end of 2023; the demolition and construction of blocks A–J in two phases from 2021 to the third quarter of 2023; and project close-out activities as the final phase (para. 56).

Project schedule


Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2018 2019 2020 2021 2022 2023 2024
Early works (repurposed publishing building/annex)
Planning phase
Design phase/tender phase
Moves/construction phase
Flexible workspace
Planning phase
Design phase/tender phase
Pilot/construction phase
New building
Planning phase
Design phase/tender phase
Moves/construction phase
Project close-out

15. The Secretary-General indicates in figure IV that the project will conclude with the close-out of project activities in the third quarter of 2024. As such, the project is characterized by an accelerated timeline for completion. The Advisory Committee recalls that the Secretary-General previously indicated that the project close-out phase would be scheduled for the final quarter of 2023 (A/72/375, table 8). The Committee was informed, upon enquiry, that the option 2 schedule in the previous report provided for the practical completion of the construction of the new office buildings at the end of 2023 and the revised schedule, in the current report, at the end of the third quarter of 2023 (A/73/344, figure IV). The Committee was also informed that the project close-out and defects liability period had been incorrectly indicated for the option 2 schedule in the previous report and should have stated the end of 2024. **The Committee encourages the Secretary-General to make every effort to implement measures to avoid any errors in the timelines of future construction projects given their potential impact on the costs and completion of the project.**

16. The Advisory Committee was provided, upon request, with a visual representation of the sequencing of the works in the project schedule, images of the existing office blocks and temporary structures, and images of the current office facilities constructed in 2010 that form the architectural design basis for the new buildings. **The Advisory Committee is of the view that, given the utility of the visual material in providing greater clarity and transparency regarding the sequencing of the works of the project schedule, future construction reports of the Secretary-General should include a visual representation of the sequencing of the proposed work.**

Project staffing

17. Annex II to the report of the Secretary-General provides details regarding the roles of the seven project positions proposed for establishment from 1 January 2019, comprising five positions in the dedicated project management team and two in the dedicated project support team. The position of Project Coordinator (P-3) is proposed for establishment from 1 January 2019 to 31 December 2022, to be cost-shared with the proposed project for the renovation of the North Building at the Economic Commission for Latin America and the Caribbean. The position would be based in the Global Property Management Service in the Office of Central Support Services at Headquarters and provide the oversight responsibility assigned to the Office by the General Assembly in its resolution 72/262 A, including the provision of independent

risk management services. The Advisory Committee notes that, while the other positions indicated in the report have no defined start and end date, that of Project Coordinator (P-3) is for a predetermined period of four years. **The Advisory Committee is of the view that the recruitment process for the project positions should take into account the scheduled activities in the project life cycle and that due consideration should be given to recruiting for the positions on an "as needed" basis. The Committee, therefore, recommends that the overall duration of the positions should correspond to the actual needs identified in the various phases of implementation of the project.**

Project accountability

18. Section III of the report of the Secretary-General provides information relating to project governance roles associated with the project (paras. 22–27). Information relating to the responsibilities associated with the roles is also provided in the previous report (A/72/375, paras. 57–72). Upon enquiry, the Advisory Committee was provided with a RACI ("responsible, accountable, consulted and informed") chart, which gives an overview of the main responsibilities of the project roles and responsible process owners in the project governance structure. **The Advisory Committee recommends that the chart be provided to the General Assembly at the time of its consideration of the report.**

Provisions for escalation and contingency

19. In his report, the Secretary-General indicates that the first Monte Carlo model[1] risk analysis demonstrated that the current "straight line" contingency funding of approximately 10 per cent applied to construction costs, professional services costs and escalation was insufficient to cover the potential costs of known potential risks to a P80 confidence level, the target of the Organization for global capital projects. The Secretary-General also indicates that this is to be expected at the current early planning stage of the project and is in line with industry norms. He further indicates that the maximum overall cost and implementation strategy of the project have not yet been approved by the General Assembly, and that, as the design phase has not yet begun, it is not possible to accurately quantify most project risks to the degree that available contingency funding should be pegged to the Monte Carlo analysis. He therefore proposes that the currently estimated contingency levels be kept at 10 per cent until the project design is further developed. He also states that the annual construction escalation rate of 7 per cent applic[4] to construction costs over the proposed applicable five-year project duration is also consistent with local industry norms and is recommended for use in the project by the independent risk management firm (paras. 36–38).

20. Upon enquiry, the Advisory Committee was informed that the amount of $542,000 for contingency for 2019 had been derived as a percentage of the related construction costs. The total costs had then been distributed over the project period to best reflect the foreseeable workload. The Committee was provided with information relating to the contingency and escalation costs and informed that the portion of the contingency for 2019 in the amount of $542,000 was calculated by applying 10 per cent to categories 1, Construction ($3,415,900), 2, Professional services ($1,765,100), and 3, Escalation ($239,100). **The Advisory Committee trusts that the estimates for escalation and contingency will continue to be refined as the project progresses and will reflect the appropriate rates or**

[1] The Monte Carlo model is a statistical analysis method used to better understand the impact of risks in a project, by using a range of minimum to maximum values with regard to time frames and cost estimates for stages and components, through a computer-based simulation that runs multiple random project scenarios.

amounts required to cover reasonable project risks, depending on the project stage. The Committee also trusts that the United Nations Office at Nairobi and the Office of Central Support Services will ensure that risks relating to construction costs, change orders, timelines of activities and procurement activities are appropriately managed to minimize risks of untimely project completion and cost overruns.

Progress during the reporting period

21. The Secretary-General provides details of the progress made during the reporting period in section V of the report. Activities include cooperation with Member States and the host country, procurement activities relating to the flexible workplace requirements and repurposing the publishing building, recruitment activities for the positions of Space Planner/Coordinator (P-4) and Architect/Engineer (P-3) approved by the General Assembly and the recruitment of the architectural consultant and specialist information technology and security consultants (paras. 42–49). He also provides the implementation strategy and schedule for the refined project (paras. 50–56).

Rental income

22. The Secretary-General indicates that the current project proposal would not lead to a significant increase in overall net rentable areas, given that the proposed new building is similar in size to the existing space being replaced in blocks A–J. Current rental billing amounts to some $5.5 million per year. With a nominal annual rental inflation rate of 2 per cent between 2019 and 2023, annual rental income would be just over $6 million by 2024 when all available space would be rentable (para. 58). Upon enquiry, the Advisory Committee was informed that the Office regularly conducted rental studies in Nairobi to confirm the applicable commercial rental rates. The most recent study, conducted in late 2017, had resulted in a slight reduction in rates, from $196.65 per m^2 per year to $185. An update was to be made annually to ensure the application of current commercial rates. The Committee was also informed that the primary objective of the project was to replace buildings that had reached the end of their useful lives and did not currently meet minimum building/life-safety codes rather than to be "self-financing" through additional future rental income.

Resource requirements for activities to be undertaken in 2019

23. In section VII of his report, the Secretary-General provides details of the activities to be undertaken in 2019, contingent upon the approval of the General Assembly. These include: recruiting the project team (see para. 17 above); awarding the architectural consultancy contract; beginning the specialized architectural consultancy services for the renovation of the publishing services building and for office space design, space planning and change management services related to the implementation of flexible workplace strategies; preparing tender documents for architectural consultancy services for the design of the new scalable office building or buildings; beginning the construction for a flexible workplace pilot project; and refining the overall cost estimate for the project in the light of the outcomes of the flexible workplace pilot project in 2019 (para. 68). The net funding requirements for 2019 of $6.595 million take into account the projected unspent balance of $158,100 at the end of 2018 and comprise $765,500 under section 29H, United Nations Office at Nairobi, and $5,829,400 under section 33, Construction, alteration, improvement and major maintenance (table 2 and para. 67).

24. The Secretary-General indicates that 2019 will see the construction for a flexible workplace pilot project begin. He recalls the two major known challenges associated with the implementation of flexible workplace strategies at the complex: "assumed

ownership" of space by existing tenants and the treatment of non-Secretariat tenants (para. 18). As regards the costs relating to the flexible workspace requirements (as indicated in the table above), the Advisory Committee notes that construction costs have increased, from $10.550 million to $11,288,400, owing to the inclusion of an escalation of 7 per cent in 2018, while professional services costs have also increased, from $1.055 million to $1,354,600. **In this regard, given the costs associated with the flexible workspace requirements, the Advisory Committee trusts that the pilot project will incorporate an updated cost-benefit analysis as well as approaches that address the identified challenges, best practices and implementation requirements of a flexible workplace environment. The Committee therefore recommends that the General Assembly request that the Secretary-General provide updates on the pilot project in his future reports on the construction project at the United Nations Office at Nairobi.**

III. Conclusions and recommendations

25. The action requested of the General Assembly is set out in paragraph 69 of the report of the Secretary-General. **Subject to its recommendations and observations above, the Advisory Committee recommends that the Assembly:**

(a) **Approve the proposed scope, maximum overall cost of $66,260,100 of the project and implementation strategy for the replacement of office blocks A–J at the United Nations Office at Nairobi;**

(b) **Approve the establishment of six positions (1 P-5, 1 P-3, 2 National Professional Officer and 2 Local level) relating to the dedicated project management team and project support staff in Nairobi and one position (P-3) in New York to provide project coordination, to be based in the Global Property Management Service at Headquarters and cost-shared with the project for the renovation of the North Building at the Economic Commission for Latin America and the Caribbean;**

(c) **Appropriate an amount of $6.595 million, comprising $765,500 under section 29H, United Nations Office at Nairobi, and $5,829,400 under section 33, Construction, alteration, improvement and major maintenance, of the programme budget for the biennium 2018–2019, which would represent a charge against the contingency fund;**

(d) **Approve the establishment of a multi-year construction-in-progress account for the project.**